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FISCAL IMPACT STATEMENT

LS 6138

BILL NUMBER: HB 1154

NOTE PREPARED: Jan 6, 2008

BILL AMENDED:

SUBJECT: Senior citizen property tax credit.

FIRST AUTHOR: Rep. Tyler

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a property tax credit payable from the property tax replacement fund to a homestead owner who is at least 65 years of age and whose adjusted gross income is less than \$30,000. It also makes an appropriation.

Effective Date: July 1, 2008.

Summary of Net State Impact: The net cost of the property tax credit to the state (property tax credit cost less income tax gain) is estimated to be \$45 M for FY 2010 (partial year) and \$91 M in FY 2011.

Explanation of State Expenditures: *Summary:* The cost of the property tax credit is estimated to total about \$89 M in CY 2010 and \$94 M in CY 2011. It is estimated that 220,000 to 230,000 taxpayers could potentially be eligible for the property tax credit by 2010 or 2011. This credit would be paid from the Property Tax Replacement Fund (PTRF) and would be fully funded.

Background Information: Beginning with property taxes payable in CY 2010, this proposal would provide a property tax credit to homeowners who are at least 65 years old with Indiana adjusted gross income (AGI) under \$30,000. The credit would equal one-half of the net tax due, multiplied by a sliding percentage based on income. The credit formula would be as follows:

Credit = $\frac{1}{2}$ (Net Property Tax) * [1 - (AGI/30,000)].

The estimates are based on simulations using 2005 Individual AGI Tax return information for taxpayers claiming: (1) the AGI deduction for property taxes paid by homeowner's or the AGI Tax credit for property taxes paid by low income Lake County homeowners; and (2) the income exemption for the elderly or blind. AGI amounts for 2008 and 2009 are estimated based actual growth rates in Nonfarm Indiana Personal Income for 2006, and 2007, and estimated growth rates thereafter. Net property tax liabilities for 2010 and 2011 are predicated on estimated annual growth rates for net tax liabilities of homeowners. The estimate also assumes annual growth in the elderly population equal to projections by the Indiana Business Research Center.

Explanation of State Revenues: *Individual AGI Tax:* The new property tax credit would lower the property tax amounts deducted by individuals from AGI. The tax credit would begin with tax year 2010 with the amount being reflected in income tax returns filed in April 2011. This is estimated to increase revenue from the Individual AGI Tax by about \$3 M annually beginning in FY 2011.

Background Information: The reduced net property tax (after the credit in this bill) would reduce amounts claimed by qualifying taxpayers for the AGI deduction for property taxes paid by homeowner's. Under current statute, a homeowner is entitled to an AGI deduction of up to \$2,500 for property taxes paid during the tax year on the home. Since the property tax credit would be effective beginning with Pay 2010 property taxes, the impact on Individual AGI Tax revenue would likely begin in FY 2011. Eighty-six percent of the revenue from the Individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Property Tax Credit:* There would be no impact on local tax revenues. Local units of government would continue to receive the same total tax revenues, regardless of the source.

Lake County Residential Income Tax Credit: The reduced net property tax (after the credit in this bill) could potentially reduce the amount of credits claimed by low income elderly homeowners under the Lake County Residential Tax Credit. The potential reduction in credits is indeterminable. Any reduction in credits claimed would reduce the credit reimbursement amounts that Lake County, E. Chicago, Gary, and Hammond are required to pay from Riverboat Admission Tax revenues.

Background Information: Under current statute, the Lake County residential income tax credit is available to homeowners in Lake County whose earned income is less than \$18,600. A homeowner whose earned income is less than \$18,000 is entitled to a credit equal to the lesser of \$300 or the amount of property taxes paid on the qualified homestead. The tax credit phases out for homeowners whose earned income is between \$18,000 and \$18,600. Under current statute, the state assumes none of the cost of the tax credit, with the entire cost of the tax credit being reimbursed by Lake County, E. Chicago, Gary, and Hammond. The reimbursement is made to the state General Fund from Riverboat Admission Tax revenue received by these local units.

Local Option Income Taxes: Because the application of the property tax credit proposed in the bill would serve to increase taxable income by lowering the amount of property taxes deducted from the state income tax return, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience a minimal increase in revenue from these taxes.

State Agencies Affected: Department of Local Government Finance, Department of State Revenue.

Local Agencies Affected: County Auditors; Counties with local option income taxes.

Information Sources: OFMA Income Tax Database, 2005; OFMA Property Tax Database; Revenue Forecast, State Budget Agency; Indiana Business Research Center.

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